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Impact Investing through organisations' practices

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RESUMO

Impact investing tem sido um tópico de tendência nos últimos anos, tendo emergido como uma alternativa para investidores que desejam contribuir para a sociedade bem como satisfazer as suas ambições financeiras. Este novo conceito de investir reuniu o apoio de diferentes atores financeiros; no entanto ainda existe alguma incerteza quanto à definição de investimento com impacto. Esta dissertação pretende clarificar qual o entendimento atual de organizações sobre a definição do conceito e quais as suas principais características, por intermédio de uma abordagem de estudo de caso de duas companhias de seguros internacionais.

Além disso, serão feitas considerações relativamente aos investidores e serão destacadas as diferenças entre *impact investing* e conceitos semelhantes. A pesquisa destaca o entendimento das organizações referidas quanto à definição do conceito e quais as principais características do conceito que consideram quando decidem em quais projetos de impacto investir. Ainda que as organizações venham de contextos diferentes, a definição atual de investimento com impacto prova ser semelhantes e ambas identificam as mesmas cinco características: retorno financeiro, retorno não financeiro, intenção, capacidade de medir impacto e adicionalidade. As quatro primeiras características recebem apoio da maior parte da literatura académica, mas o mesmo não acontece com a última característica. Esta pesquisa conclui que a definição atual de investimento de impacto, mencionada na literatura académica e pelas organizações, inclui as quatro características referidas e tece algumas considerações para futuras pesquisas.

Palavras-chave: capacidade de medir impacto; impact investing; intenção; retorno financeiro; retorno não financeiro.

ABSTRACT

Impact investing has been a trending topic in recent times, emerging as an alternative to investors who wish to contribute to society beyond satisfying their financial ambitions. It has gathered support from different financial players; however, ambiguity has remained regarding the definition of impact investing. This dissertation intends to provide clarity to organisation's current understanding of the definition of the concept through a case study approach of two international insurance companies and what are its core characteristics.

Moreover, considerations will be made regarding impact investors and the differences between concepts similar to impact investing will be highlighted. The research focuses on these organisations' understanding of the definition of the concept and which are the main characteristics they consider when deciding upon which impact projects to invest in. Even though the organisations come from different contexts, their current definition of impact investing proves to be similar and both identify the same five characteristics: financial return, non-financial return, intention, ability to measure impact and additionality. The first four characteristics receive support from most of the academic literature, but the last characteristic does not. This research concludes that the current definition of impact investing, mentioned in the academic literature and by the organisations, includes the four characteristics and provides some considerations for future research.

Keywords: ability to measure impact; financial return; impact investing; intention; non-financial return.

INTRODUCTION

Impact investing is a concept that has gained notoriety in recent years, persistently occupying the minds of investors (Clarkin & Cangioni, 2016; Quinn & Munir, 2017), having emerged as a growing industry. It is distinct from traditional investing since the investor is motivated by the intention of investing in projects which aim to confront an environmental/social challenge, whilst simultaneously pursuing financial returns (Bugg-Levine & Goldstein, 2009; Brown, 2011; Quinn & Munir, 2017). Impact investors primarily focus their activities in sectors/projects which relate to topics such as poverty, work conditions, inequalities, health, among others (GIIN, 2019).

Currently, it is estimated that there are 502 billion USD worth of impact investments worldwide (Mudaliar & Dithrich, 2019), which disproves Battilana's et al. (2012) belief of reaching 500 billion USD by 2023. Nonetheless, the increasing activity and interest has not been properly matched by academic research and therefore definitional and terminological ambiguities remain, leaving much room for research and development of the definition of the concept (Hebb, 2013; Hochstadter & Scheck, 2014; Roundy, et al., 2017; Agrawal & Hockerts, 2019).

Academic authors, as well as practitioners, agree that it is essential to reach an overall understanding of the concept so that investors, investees and those impacted by this industry can be fully aware of what it is intended with these activities or projects (Hochstadter & Scheck, 2014; Agrawal & Hockerts, 2019). Previous research has concentrated mostly on developing countries (Agrawal & Hockerts, 2019) so the present dissertation focuses on impact investing projects whose outcomes will be exclusive to developed countries and it strives to answer the following research question: "How do organisations describe impact investing through their practices?".

This dissertation aims to uncover the organisation's understanding of the definition of impact investing and to identify the current core characteristics of the concept they consider when deciding upon which impact project to invest in. However, in order to reach a profound understanding, it is also imperative to mention how can impact investing be distinguished from similar concepts, and who can an impact investors be, differences among these investors and between these and other investors.

To do so, firstly, the relevant literature was scrutinized to identify the main characteristics of the definition of impact investing. Then, using a case study approach, findings were collected from two international insurance organisations, recognised as impact investors by the GIIN (Global Impact Investment Network), which have been conducting impact investments across multiple sectors and regions. The findings focused on the core characteristics of impact investing identified by these organisations through their statements and by analysing two recent impact investing projects which they have supported. The discussion compares the organisations definition of impact investing against the authors mentioned in the literature review to provide conclusions on the differences and similarities of how the concept is defined currently.

The dissertation has an international scope which can be verified by the fact that neither of the organisation's headquarters is situated in the United Kingdom, their business is well established all over the world and that the projects chosen will produce their outcomes in different countries where the decision-making process is taking place.

1. LITERATURE REVIEW

For this chapter, the platform Onesearch and the databases Emerald, Proquest, Taylor & Francis Social Science and Humanities Collection, Business Premium Collection and Google Scholar were used. The search terms employed were "impact investing", "impact investors", "impact" and "impact investing review". The literature review reflects on the chronological development of the definition of impact investing to identify its main characteristics, which will be used for the data analysis. Furthermore, some considerations were given relating to terminological differences between impact investing and similar concepts and impact investors.

1.1 IMPACT INVESTING

Impact investing is a concept which was created either in a meeting, promoted by the Rockefeller Foundation, in 2007, where the attendees were mainly investors, funds, entrepreneurs and other financial players (Hochstadter & Scheck, 2014; Agrawal & Hockerts, 2019); or in a 2008 meeting with philanthropists and investors in Italy (Clarkin & Cangioni, 2016). Impact investing is similar to traditional investing because it pursues financial return but distinct since it also pursues non-financial return (Agrawal & Hockerts, 2019).

According to Agrawal & Hockerts (2019), impact investing is a concept mostly used in the USA and Asian countries, whereas European countries tend to use it interchangeably with 'social finance'.

In 2009, impact investing was defined as the activity performed by an investor of allocating capital to businesses and funds to generate environmental/social benefits and, at minimum, generate return nominal principal to the investor (Freireich & Fulton, 2009). Contrastingly, other authors prefer to define it as the activity responsible for solving environmental or social challenges while achieving financial returns (Bugg-Levine &

Goldstein, 2009). The vagueness and generality of the concept, at such an early stage, was an attempt to "unite diverse players around a shared purpose" (Goldman & Booker, 2015, p. 1).

Bugg-Levine & Emerson, in 2011, revisited their research and complemented the definition by adding that financial and social/environmental returns, which characterise impact investing, should be treated as "blended value". This translates the notion of organisations integrating their activities to seek both social justice and wealth, and that can be achieved more easily when all stakeholders work together rather than separately (Emerson, 2003; Bugg-Levine & Emerson, 2011). These authors, like Brown (2011), agree that organisations must have the clear intention of tackling environmental and social challenges and the tool to achieve the two factors is blended value. Furthermore, the value generated through impact investing can adopt either one of three components: social, environmental or economic (Bugg-Levine & Emerson, 2011). Therefore, by 2011, impact investing consisted of two factors – financial and environmental/social returns – and it was suggested that blended value should accompany the definition (Bugg-Levine & Emerson, 2011). However, there was no consensus of what was meant with social/environmental return and whether there was a minimum requirement for financial return.

In 2013, Brest and Born provided a different insight by defining impact investing as investing with the intended ability to have a financial and environmental/social gain; characteristic that Hebb (2013) also identifies. However, this investment can only be considered 'valid' if it enhances the quality or quantity of the intended outcomes beyond what would otherwise have occurred, which can be understood as additionality (Brest & Born, 2013). Similarly, Jackson (2013) agrees with the fact that intention compels the activity of impact investment and states there has to be some proof of the achievement of the intended outcomes. Comparing with the notion of blended value (Bugg-Levine & Emerson, 2011), Jackson's (2013) theory of change seems to be in agreement of investors and investees working together to achieve their objectives, but materialises it where a formal discussion of requirements and capital necessarily has to happen before committing to the investment to conduct a proper analysis of the outcomes – see figure 1 (appendix 1). Differently, Cohen and Sahlman (2013) consider impact investing as delivering acceptable financial returns at the same time as social/environmental impact, further on referencing "reasonable returns" (p. 3). By 2013, some academic authors (Brown, 2011; Hebb, 2013; Jackson, 2013; Brest & Born, 2013) agreed as to the inclusion of the intention characteristic in the definition of impact investing.

The first attempt to assemble the existing literature on the concept is done in 2014 by Hochstadter & Scheck (Rizzello, et al., 2016). Their research mentions reports which allude to the lack of existing definitions of impact investing and, consequently, offer a definition composed of two elements: financial return and "some sort of non-financial impact" (Hochstadter & Scheck, 2014, p. 1), which seems to suggest impact investing could relate to impact other than social or environmental, as recommended by Bugg-Levine & Emerson (2011). Furthermore, these authors acknowledge a generic consensus, regarding the financial return, where the recovery of the invested principal capital is a minimum requirement (Hochstadter & Scheck, 2014). They also mention the importance of regarding the intention of the investor, in agreement with Brown (2011), Bugg-Levine & Emerson (2011), Jackson (2013) and Quinn and Munir (2017), as well as the ability to measure the non-financial impact as intrinsic to the impact investing definition.

Later, Clarkin and Cangioni (2016), even though in agreement with most of their academic predecessors on the definition of impact investing, and considering the increasing public interest on the topic, offered a characteristic which should be taken in consideration when defining the concept. Unlike, e.g. social responsible investments, impact investing is concerned with creating positive social/environmental impact rather than just minimizing current negative impacts (Clarkin & Cangioni, 2016). Rizzelo et al. (2016) attempt to place impact investing either within 'private or market perspective', or ‘public or social intervention/instrument’, however concluding that it is situated in the middle – see figure 2 (appendix 1), which subsequently received the support of Roundy et al. (2017). Moreover, concerning the definition of impact investing, they consider a better solution one which incorporates Emerson’s ‘blended value proposition’ (Emerson, 2003) with Porter and Kramer’s (2011) ‘shared value’ (Roundy, et al., 2017). The latter is described as the operating practices and policies that increase the competitiveness of an organisation while developing social and economic conditions in the communities where it operates (Porter & Kramer, 2011).

In Roundy et al.’s (2017) definition of impact investing, more consideration is given to the wording, and hence support substituting the two main components of the concept with financial technical terms. Whereas previously there was mention of financial return, the authors replace it with return on investment (ROI); and for the non-financial return, it is succeeded by social return on investment (SROI) (Roundy, et al., 2017). Regarding the second return, it is created when the investee produces social value for a group of stakeholders (Roundy, et al., 2017). Additionally, they assert that the activity aims for value creation – investing in entities which generate positive externalities; and value capture – investing in entities which provide satisfactory financial returns (Roundy, et al., 2017). Differently, Quinn and Munir (2017) believe that impact investing happens when investors aim to tackle environmental/social challenges and merely expect to have financial returns.

Finally, the work done by Agrawal & Hockerts (2019) is the most recent systematic review on impact investing known. These authors conclude the concept has developed to a point where there is the pursuit of both ROI and SROI. Even though the requirement of ROI has not been quantified, it has been established that social value creation and maximizing social return on investment are objectives (Agrawal & Hockerts, 2019). These authors further emphasise that impact investing, more than microfinance or social responsible investing, tends to have a higher degree of involvement with the investee and they assert for the need to have the ability to measure outcomes, so that the outcomes of the existing impact investing organisations are legitimised (Agrawal & Hockerts, 2019).

It is also relevant to specifically mention that there are some concepts which could be mistaken with impact investing. Concerning venture philanthropy, impact investing is distinct since it places focus on financial returns, even though it hopes to enlarge the social return and establishes relationships of accountability with the investees (Agrawal & Hockerts, 2019). Regarding social responsible investing, it differs from impact investing due to aiming for investing in a range of portfolios while impact investing tends to directly place its capital to a smaller number of investees, which are usually in an early stage of development (Roundy, et al., 2017). Finally, in respect to social impact bonds, it is distinct because it is not based on an arrangement with a government, investor and social enterprise, seeking to optimize operations or finances of a public organisation under strict obligations (Agrawal & Hockerts, 2019).

1.2. IMPACT INVESTORS

To understand impact investing is necessary to also understand impact investors. Considering a spectrum where on one side are financial returns (ROI) and on the other are social/environmental returns (SROI), venture capitalists are placed on the ROI side and philanthropists on the SROI side (Roundy, et al., 2017). In the same spectrum, impact investors would be placed in the middle, close to angel investors. However, where angel investors do not purposefully pursue SROI, impact investors do and hence the latter is placed more proximate to the philanthropists (Roundy, et al., 2017).

Impact investors can be understood as individuals, groups or institutions which are motivated to invest in projects that coordinate with their own values and are driven to create social good (Roundy, et al., 2017). These can also be distinguished regarding their nature into four categories: asset owners, such as corporations, governments, foundations and high net worth individuals; service providers like consulting firms, non-governmental organisations and universities; asset managers being fund managers, banks, investment advisors and venture funds; and demand-side actors such as cooperatives, small and growing businesses and social enterprises (Harji & Jackson, 2012) – please see figure 3 (appendix 1). Quinn and Munir (2017) describe impact investors as those who have a higher degree of proactiveness in their investments when in comparison with other investors.

Brown (2011) explained the existence of two types of investors, considering their intention. On one hand, there are 'impact first investors' who aim to maximize environmental or social impact with a threshold for financial returns, meaning they are prepared to give up some financial return if need be. On the other hand, 'financial first investors' are investors who seek to maximize their financial returns while establishing a threshold for social or environmental impact. This definition has received the support of Hebb (2013), who complimented the description of 'financial first investors' as those who will not sacrifice their financial returns over potential positive social/environmental impact and who considers that 'impact first investors' usually come from the philanthropic community. Brown's (2011) dual classification has received criticism of being antiquated and that it gives the impression of impact investing relying on the idea of a trade-off between those willing to receive lower financial returns and those who would not sacrifice it in favour of non-financial impact (Goldman & Booker, 2015). These authors state that the dual classification, as presented by Brown, is too simple, diminishing and far from the reality of impact investing to be clustered in this form. Also, Choda and Teladia (2018) reject this dual classification since they consider that investors only value high financial returns and high environmental/social returns – see figure 4 (appendix 1).

Roundy et al. (2017) findings conclude, at least for individuals and impact investing funds, that investors look for financial targets such as minimum threshold for the desired ROI;

investors consider size of ventures; or the capital the organisation is seeking; or the organisations' stage of development; and investors look at the assessment of the venture's ability to grow; and the strength of the management team. Regarding the SROI, these investors establish a "social value-oriented criteria" that can range from conducting a questionnaire to the investee regarding the processes behind the project; to having a metric system to evaluate social performance; or just by understanding the investees' drive behind the project (Roundy, et al., 2017, p. 14).

Considering the above, it seems that impact investing is defined as the investment which pursues financial and non-financial returns. The latter can, in turn, be of social, environmental, cultural or economic nature. Also, it seems there is an academic consensus that the intention of the investor to invest an intrinsic part of the impact investing definition. Also, investors should apply appropriate tools to ensure the non-financial impact did occur in consequence of the investment that was deployed, which, for this dissertation, is shortened to the ability to measure impact, should be considered as a characteristic as well.

2. RESEARCH DESIGN

This research design is developed in the context of a deductive paradigm since the aim is to make use of the existing theory about impact investing to aid the research (Blaikie, 2010; Saunders, 2016).

Considering the data was mainly sourced from non-numerical data, such as documents and reports, to understand the phenomena, qualitative research was preferred (Flick, 2008; Tiuwright, 2009; Chivanga, 2016). The possibility that the data analysis might be affected by a subjective interpretation is stated as a limitation by these authors.

In order to provide adequate conclusions to the proposed research question, case study was the method chosen. A case study (George, 2005; Yin, 2009; Pratama & Firman, 2010) allows for thoroughly understanding 'real-life' events - organisations that are investing as impact investors - in contextual conditions - within the impact investing industry - which is highly pertinent to the research topic. The decision to conduct a multi-case study was to provide more robustness to the probability to find a greater quantity of data and to better contribute to the topic with empirical research (Dul & Hak, 2008; Yin, 2009). Also, this method does not require the direct exercise of control over the behavioural events that are going to be analysed (George, 2005).

2.1. DATA COLLECTION

To conduct the case study, GIIN's website section of case studies was analysed. The purpose was to identify two international organisations, acting within the same industry, who actively supported impact investing projects whose outcomes would be produced in developed countries. Every year, GIIN publishes the 'Annual Impact Investor Survey' which compiles information about impact investors, so this can be considered as a reliable source of information. The two organisations chosen were Zurich Insurance Group and

Prudential Financial (GIIN, 2015; 2016; 2017; 2018; 2019), henceforth Zurich and Prudential, since both are in the business of providing insurance and have dedicated portfolios for impact investing. To better understand how these organisations define impact investing, for each it was chosen a project whose outcomes would be produced exclusively in a developed country, concentrating on pursuing primarily environmental impact. Therefore, the data collection focused on the organisations' websites, reports, investee's websites, news articles, the 'East Anglia One' project for which Zurich has invested, and Aerofarm's project which received the investment of Prudential.

2.2. DATA ANALYSIS

To analyse the qualitative data, the coding method was employed. Considering the purpose is to analyse the content of written documents, this method is the most suitable since it allows for capturing the essence of a document and to summarize it (Saldana, 2013; Corbin, 2015). Coding allows for organising and group similar data into codes as the researcher sees fit (Miles & Huberman, 1994; Saldana, 2013). However, it can also be a method that reduces the scope of the content analysis (Saldana, 2013).

Since the goal of this research is to understand a phenomenon, a descriptive coding method was chosen (Saldana, 2013). Initially, the data was separated according to the author, year and source, and then the significant passages were highlighted for further consideration. Then, the codes (financial return; non-financial return; intention; ability to measure), which were identified in the literature review, were used to identify which topics they referred to. This allowed for an organised inventory of topics which facilitated the consequential analysis of findings (Saldana, 2013).

Regarding the content analysis, a table was developed to better organise the findings. For each finding related to one of the characteristics, it is inserted in the corresponding code. The table that was used is the following:

Code	Title - Page Number	Year	Organisation	Source
Financial Return				
Non-Financial Return				
Intention				
Ability to Measure				

3. FINDINGS

The purpose of this chapter is to present the findings which have resulted from the analysis of the four core characteristics of impact investing embedded in the analysed documents – see appendix 2.

Zurich was founded in 1872 in Switzerland, where it has its headquarters. Specialising in multiline insurance, it operates in more than 170 countries (Zurich Insurance, 2018b, 2019a, 2019c). Throughout its history, Zurich has placed focus on making positive contributions to the communities where it operates (Zurich Insurance, 2019g) and has recently invested in Scottish Renewable's project 'East Anglia One', which aims to create, in the North Sea, the world's largest wind farm (Iberdrola, 2019).

Founded in 1875, Prudential focuses on providing insurance as well as investment management, being present in more than 40 countries (Prudential Financial, 2019a, 2019e). Its headquarters are in the USA and it presents itself as an organisation which is fundamentally dedicated to promoting financial well-being (Prudential Financial, 2019b). This organisation has invested in Aerofarm's project of developing a vertical indoor farm in Newark, USA (Prudential Financial, 2015).

3.1. FINANCIAL RETURN

Zurich avoids quantifying what financial returns it will harvest with impact investments, despite acknowledging these can range from zero to returns comparable to non-impact investments of similar risk (Zurich Insurance, 2019b, 2019d). However, it aspires for, at least, the return of the capital invested when choosing which projects to invest for and invests using green bonds of unknown capital (Zurich Insurance, 2018a, 2019b, 2019d, 2019e).

Similarly, Prudential considers financial returns as an essential characteristic of impact investment and describes its as either seeking financial returns, which happens with 80% of its portfolio or risk-adjusted or even below market-rate returns for the remaining 20% of its portfolio (Prudential Financial, 2019b). In 2015, Prudential invested 5 million USD in the project using an unknown financial instrument (Prudential Financial, 2018b).

3.2. NON-FINANCIAL RETURN

In Zurich's perspective, the non-financial return is defined as one that creates a positive impact on society or the environment (Zurich Insurance, 2018a). To construe its impact investing objectives, it embodied the purpose of this return because, on one hand, it aims for mitigating environmental risks, through investments in green technologies which tackle climate change. On the other hand, it aids underserved populations and building community capital, increasing community resilience (Zurich Insurance, 2019f) – see figure 5 (appendix 1). When choosing the project, Zurich attended to its objectives and the non-financial return, since the expected outcomes are to provide clean, renewable energy and to create jobs (Scottish Power, 2019; Iberdrola, 2019). Through this, Zurich supports a project which pursues primarily environmental impact but also social impact. Prudential attends for investments which will create a positive social impact, without directly mentioning environmental impact (Prudential Financial, 2018a, 2019c, 2019d). In the pursuit of those positive outcomes, Prudential mentions focusing on sectors such as affordable housing, renewable energy and agriculture (Prudential Financial, 2019b, 2019d). By investing in Aerofarm's project, Prudential materializes its objectives since the outcomes are to produce vegetables and herbs, without using soil, pesticides and using 97% less water than traditional farming (Prudential Financial, 2015). Additionally, this project will, indirectly, allow for the rejuvenation of one of Newark's buildings and for the creation of jobs, which will positively influence Newark's community (Prudential Financial, 2015, 2018b; Business Insider, 2016; The Guardian, 2016; Impact Alpha, 2018).

3.3. INTENTION

Considering this characteristic, Zurich's slogan of "doing well and doing good" transpires the intention of providing financial returns to its customers whilst having a positive impact on society, and the communities where it operates (Zurich Insurance, 2018a). Furthermore, it showcases that, when choosing impact investments and considering the objectives it has established, Zurich has the intention of pursuing social and/or environmental impact. Proof of Zurich's intention is observable by the fact Zurich has a portfolio worth 3.8 billion USD of impact investments (Zurich Insurance, 2018a).

This characteristic is also recognisable in Prudential's definition in the expression 'investing with a purpose', which can be understood that, when deciding over those investments, it purposefully aims to harvest social or environmental impact, even if the latter is only implicitly stated (Prudential Financial, 2018a, 2019c, 2019d). Driven by this intention, Prudential has, thus far, compiled an impact investment portfolio with a market value of 860 million USD (Prudential Financial, 2018a), which is estimated to grow to 1 billion USD by 2020 (PGIM, 2019).

3.4. ABILITY TO MEASURE IMPACT

Zurich considers that impact investing is defined by the ability to measure the impact (Zurich Insurance, 2018a) since it allows to make better future investments and to better communicate its value to stakeholders (Zurich Insurance, 2019b, 2019d). To perform such measurements, Zurich developed a framework which measures the 'CO2 equivalent emissions avoided', a common indicator which assesses the climate impact of an asset; and the 'number of people who benefited', accounting for those who were positively affected from these activities/services (Zurich Insurance, 2019b, 2019f). Regarding the framework for measuring the investment, Zurich relies on IRIS (Impact Reporting and Investment Standards) which was developed by GIIN (Zurich Insurance, 2019d).

Concerning how Prudential measures its impact, it uses third-party standards and measurement tools, such as GIIRS (Global Impact Investment Rating System) (B Analytics, 2019; Prudential Financial, 2019b). Moreover, Prudential requires the investee to embrace the same practices of impact assessment that itself applies (Prudential Financial, 2019b).

The analysis allowed for the identification, from the organisations' perspective, of a fifth characteristic of the definition of impact investing.

3.5. ADDITIONALITY

Zurich calls on additionality to distinguish impact investing from 'deep impact investing'. Additionality, which is the requirement of more effort in investment processes, such as private market investments in emerging and frontier economies, is only present in deep impact investing (Zurich Insurance, 2019b) – see figure 6 (appendix 1).

Likewise, this characteristic is also brought up by Prudential. This organisation explains this concept as: when some form of financial concession is lacking, there is no additionality to impact investing since, otherwise, the investments would have been made anyway. From their perspective, this concept distinguishes, and hence defines, impact investing from traditional investing (Prudential Financial, 2019b).

Considering the overall definition of impact investing, Zurich defines it as "investing in opportunities which create a positive impact on society or the environment that is both targeted and measurable" (Zurich Insurance, 2018a). Whereas Prudential defines it as investments that "could—and should—generate a financial return and create positive, measurable social impact." (Prudential Financial, 2019c).

As a consequence of this analysis, it is possible to observe the four mentioned characteristics embedded in both of these organisations' definitions of impact investing. Moreover, the two organisations identify a fifth characteristic of impact investing.

4. DISCUSSION

This research intends to discover the organisation's understanding of the definition of impact investing as well as identifying its core characteristics through the analysis of two organisations and two of their projects.

Seeing as both organisations are insurance companies, they have direct interest in projects which harbour the expectation of environmental impact since these outcomes would help to dilute the risk of environment-related disasters, which tend to require the intervention of these companies (World Economic Forum, 2013; Prudential Financial, 2018a; Zurich Insurance, 2018b). Hence, the chosen projects have a focus on pursuing environmental impact.

The literature enabled to understand that most academic authors consider impact investing essentially defined by four characteristics: the pursuit of financial and non-financial return, the intention of the impact investor and the ability to measure the impact (Hochstadter & Scheck, 2014; Roundy, et al., 2017; Agrawal & Hockerts, 2019). These characteristics served as the coding guidelines which led to the data analysis.

In relation to the financial return, albeit none of the organisations quantifies which is the expected return an investment must bring in order to be chosen, Zurich chooses the ones that would at least return the capital invested, whereas Prudential differentiates according to its portfolio, choosing investments that bring financial returns or investments that deliver risk-adjusted or below-market returns. These findings agree with Hochstadter & Scheck (2014) which concluded as a minimum requirement for most impact investors, the return of the capital invested. These findings seem to strengthen the difference between impact investing and philanthropy since, in this research, both organisations do not concede financial returns over the pursuit of impact, agreeing with (Roundy, et al., 2017; Agrawal & Hockerts, 2019).

The definition given by Prudential exclusively regards impact as social impact, which seems to be an overly strict qualification of non-financial impact. Bugg-Levine & Emerson (2011) and Hochstadter & Scheck (2014) have clarified that the expected impact does not need to be either social or environmental, but it can also embrace a cultural or even economic aspect. Due to the multitude of forms that impact can adopt, recent authors prefer to cite it as non-financial impact (Hochstadter & Scheck, 2014; Agrawal & Hockerts, 2019), avoiding classifications which could fall short of what these investments can pursue or achieve. Even though Prudential states that, regarding non-financial impact, it solely pursues social return, it is observable that Prudential recognises also chasing environmental impact with its impact investing activities and with the sectors it focuses on. Furthermore, it can even be argued that it seeks economic impact due to the fact it places effort on rehabilitating Newark's businesses. Therefore, Prudential's definition seems disjoined to its practices as an impact investor, since it fails to include environmental impact even though it clearly pursues it. Analysing the projects, they seem to indicate why it could be important to accept the concept of 'non-financial return' over 'social/environmental impact', as the impact can be of multiple classifications, even if the investor does not directly pursue it.

Considering the organisations' definition of impact investing, it would be easy to assume they classify themselves as impact-first investors. Yet, the findings collected regarding the financial return expose their lack of willingness to make financial sacrifices in order to pursue non-financial returns. Neither are the organisations looking to maximize the financial return. Seeing the mentioned projects, Zurich used green bonds, a financial instrument used to fund an environmental project which has an anticipated environmental impact associated to it (Paranque and Revelli, 2019), allowing for moderate returns and risks (World Economic Forum, 2013). Whereas Prudential deployed patient capital, which refers to capital invested with a social purpose, where the investor does not withdraw from a long-term investment if the investee does not respond to short-term market pressures (Klingler-Vidra, 2016). Considering the category of the capital invested and the financial instrument used, this further strengthens the argument that these organisations are willing to make concessions for either return. Hence, it is possible to agree with Goldman and Booker (2015), who argue that Brown's (2011) dual classification is not suitable for the current reality of this industry because organisations do not necessarily engage in a trade-off between financial and non-financial return, but rather compromise to pursue both returns.

The findings exhibit that both organisations, having amassed sizable portfolios within this industry, place intention behind the impact investments they choose, and the analysed projects emphasise the quest for non-financial return. Thus, there is an agreement between the findings and the literature (Bugg-Levine & Emerson, 2011; Brown, 2011; Jackson, 2013; Hochstadter & Scheck, 2014; Quinn and Munir, 2017) as to the presence of this characteristic.

In regard to the ability to measure impact, this characteristic arose due to the necessity of providing validity to the investments made as impact investments (Brown, 2011; Hebb, 2013; Jackson, 2013; Brest and Born, 2013). This characteristic is supported with the findings because organisations, either by creating their own or using third-party developed metrics, apply a framework to assess the financial return and the non-financial impact. It is possible to establish a connection between the blended value concept with the advantages of measurement presented by Zurich. Whereas blended value translates the benefits of organisations working together (Emerson, 2003; Bugg-Levine & Emerson, 2011), similarly, Zurich, declares that the ability to measure allows for better communication, hinting at a wish to work closely with its stakeholders. Despite academic authors offering input on how to measure impact investments – e.g. theory of change (Jackson, 2013) – it seems like the option taken by Prudential might be more adequate if it is intended to establish comparisons between investments. If there are a high number of impact investors using tools such as IRIS, this will enable other investors to make wellinformed decisions about choosing an investment since the information available will be more detailed, homogenous and accessible.

The organisations specify additionality as a fifth characteristic of the definition of impact investing, although describing it differently. Prudential's point of view echoes the one shared by Brest and Born (2013) where, had it not been for the impact investment, there would not be an increase in the quantity or quality of the social/environmental outcome. Notwithstanding the importance of the concept as presented by Brest and Born (2013), it seems very similar to the intention characteristic. Considering the purpose of conducting the impact investment is precisely to confront challenges that are not already being dealt with, one could question why include additionality as a core characteristic. Differently, Zurich's use of additionality begs the question if there is a necessity to create a new concept which refers exclusively to increased effort in investment processes, as this subject has not been brought up by academic authors (Hochstadter & Scheck, 2014; Agrawal & Hockerts, 2019). Moreover, most literature reflects on impact investments made in developing economies (Agrawal & Hockerts, 2019) as a subject of research, not having referred the possible increased effort in the investment processes as a different concept. Therefore, it seems that the fifth characteristic, as found in the case study, lacks reasoning for existence.

Respecting the overall definition of impact investing, it is noticeable that Zurich and Prudential indicate a positive impact. This resonates with Clarkin and Cangioni's (2016) opinion of excluding those investments which only minimise current negative impacts. Still, these authors' definition seems to poorly reflect reality since it does not seem to account for investments which hope to, at best, tackle social challenges – e.g. it is extremely difficult to eradicate poverty, nonetheless the investors' effort to reduce the existing levels of poverty should not deserve less consideration within this industry. Accepting the definition as explained by Clarkin and Cangioni (2016) and stated by Zurich, seems to imply disregarding an investor's determination to produce non-financial impact simply because it is incapable of producing a 'positive' one. Consequently, the explicitness of the impact having to be 'positive' may lead to the undesirable withdrawal of investors who seek to be a part of this industry, yet are incapable of allocating enough capital to eliminate a social/environmental challenge at once.

Moreover, it is interesting to notice that neither organisation adopts the concepts ROI and SROI, as presented by Roundy et al.'s (2017) and Agrawal & Hockerts (2019), even though both organisations are established impact investors. Hence, it can be said that these two concepts have not received enough notoriety by organisations to be integrated into the definition of impact investing.

While this dissertation hopes to further clarify the definition of impact investing, the research is composed of two organisations which limits the possibility to generalize the findings to the whole impact investing industry. Furthermore, case selection bias could occur and unwillingly, the findings could happen to be an extreme representation of the reality of impact investing (George, 2005). Finally, the discussion is conducted exclusively considering the investors perspective which jeopardizes the definition of impact investing from the perspective of the investees and the people who are impacted.

With this dissertation, the intended objectives were met since the organisation's understanding of the current definition of impact investing was uncovered and the core characteristics of the definition were identified.

CONCLUSION & CRITICAL REFLECTION

This dissertation successfully reached the goals which had set out to do. The concept of impact investing is relatively new and therefore requires academic and empirical research regarding its definition to achieve an understanding of it and hopefully attract more investors.

The literature review demonstrates that impact investing has been a developing concept throughout the years, requiring further clarification. This dissertation hopes to be a tool to aid a better comprehension of the concept by researching how two similar international organisations define the concept and which are the core characteristics of the definition of impact investing. Most case studies so far have focused on impact investing activities conducted in developing countries, so the present dissertation also hopes to provide insights on the activities done in developed countries.

The four characteristics identified in the literature found resonance in the case study, albeit with some nuances. These differences related to the distinct manner which the organisations portrait the non-financial return, amongst themselves and between their theoretical proposal and how they define it through their practices. Furthermore, this research provided an interesting outcome which resulted in the criticism of the dual classification of impact investors since neither organisation proved to pursue one return over the other. Considering the finding of a fifth characteristic, this research points to the lack of necessity to include it in the definition of impact investing, and the lack of appropriateness of the reasoning presented. The suggestion of harmonizing the measurement standards used by organisations which act within the same sectors could provide useful in order to develop more realistic expectations of what and how much impact can be achieved.

Thus, this dissertation contributed to a better understanding of the definition of impact investing, its investors and what characteristics are embedded in the definition and taken into consideration in the organisations' decision-making process.

Regarding the emergence of the concept deep impact investing, even though the findings did not support the necessity of its existence, it could be argued that further research is needed to understand if impact investing activities happening in developed countries are similar to those found in developing countries. Moreover, future research could focus on comparing the outcomes between impact investing activities conducted in developing and developed countries. It would be useful a future research which employed a research method using primary data, such as interviews or focus groups. Finally, the replication of some key findings found in this research with a greater number of cases, less wording and time constraints is advisable for future research.

Taking into consideration the current pressing topics such as climate change, ageing population and social inefficiencies, solutions such as impact investing arose as an optimal solution for investors who wish to continue to pursue their capitalist endeavours but also strive to contribute with 'social good', whether it be social, environmental or other. Therefore, the need to clarify the definition of impact investing is urgent since it will attract more investors to this mission.

Word Count: 6774

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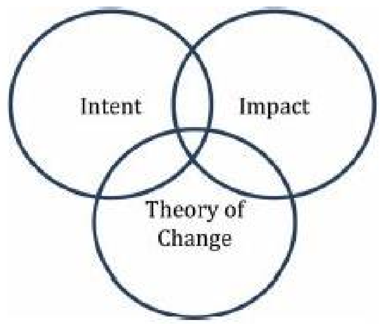
APPENDIX 1

Figure 1 – Core components of the definition of an impact investment



Source: (Jackson, 2013)

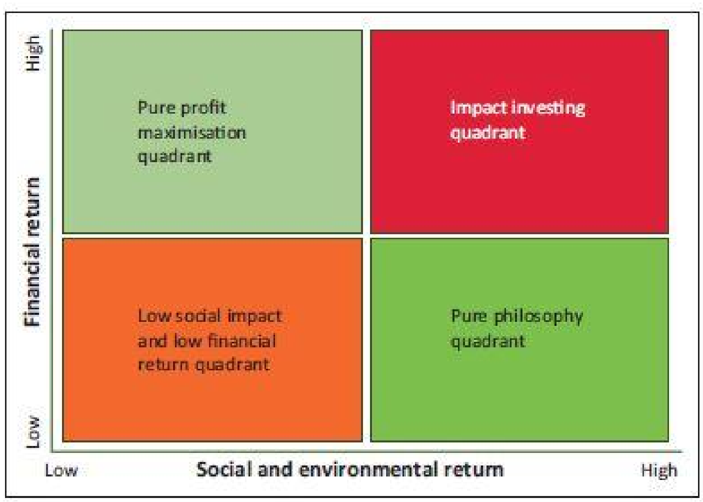
Figure 2 – The Social Impact Investing Landscape: An overview

Source: (Rizzello, et al., 2016)

Figure 3 – Actors in the Impact Investing Industry

Source: (Harji & Jackson, 2012)

Figure 4 – Impact Investing in the context of desired outcomes

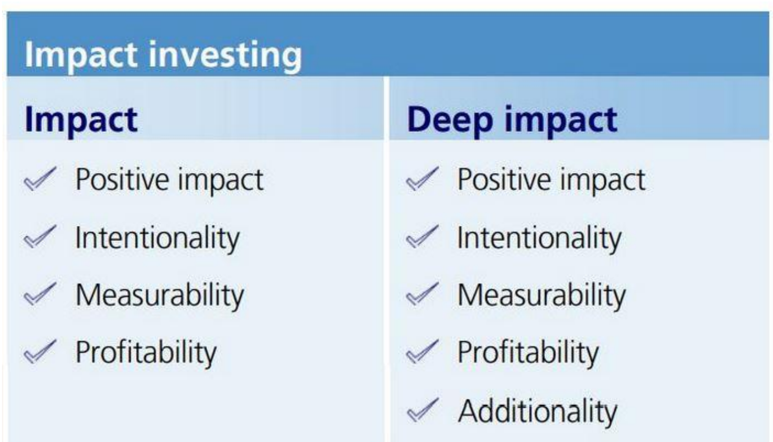


Source: (Choda and Teladia, 2018)

Figure 5 – Zurich’s Impact Objectives

Source: (Zurich Insurance, 2019d)

Figure 6 – Impact and Deep Impact



Source: (Zurich Insurance, 2019b)

APPENDIX 2

Code	Title - Page Number	Year	Organisation	Source
Financial Return	2015 Sustainability Report - 2,32	2015	Prudential Financial	Report
	2018 Sustainability Report - 4, 20, 31, 32, 37	2018	Prudential Financial	Report
	Zurich Impact Measurement Framework - 5,6, 9, 12	2019	Zurich Insurance Group	Report
	Responsible Investment at Zurich - 6, 13, 14, 17, 18	2019	Zurich Insurance Group	Report
	Sustainability highlights 2018 – 8, 14, 15, 16	2018	Zurich Insurance Group	Report
	From Ideas to Practice, Pilots to Strategy – 7, 8	2013	World Economic Forum	Report
	Photos of the World's Largest Vertical Farm	2016	Business Insider	News Article
	What You Need to Know about Impact Investing	2019	GIIN	Website
	Lata Reddy: Prudential Financial's Investments in Equity and Inclusion - and Newark	2018	Impact Alpha	News Article
	Active Capital: Implementing a Billion Dollar Mandate	2019	Prudential Financial	Website
	Impact Investing	2019	Prudential Financial	Website
	Impact Investments	2019	Prudential Financial	Website
	Aerofarms - World’s largest vertical farm grows without soil, sunlight in Newark.	2016	The Guardian	News Article
	Our Responsibility as an Investor ǀ Corporate Responsibility	2018	Zurich Insurance Group	Website
	Z Zurich Foundation ǀ Investing in Communities	2019	Zurich Insurance Group	Website
	Impact Investment ǀ Responsible Investment ǀ Corporate Responsibility	2019	Zurich Insurance Group	Website
	Utility of the Future	2019	Zurich Insurance Group	Website

Non-Financial Return	2015 Sustainability Report - 2, 32	2015	Prudential Financial	Report
	2018 Sustainability Report – 4, 19, 31, 32	2018		Report
	Zurich Impact Measurement Framework – 5, 8	2019	Zurich Insurance Group	Report
	Responsible Investment at Zurich – 6, 11, 13, 15, 16, 18	2019	Zurich Insurance Group	Report
	Sustainability highlights 2018 – 8, 14, 15, 22, 23, 24, 26	2018	Zurich Insurance Group	Report
	From Ideas to Practice, Pilots to Strategy - 8	2013	World Economic Forum	Report
	Photos of the World's Largest Vertical Farm	2016	Business Insider	News Article
	What You Need to Know about Impact Investing	2019	GIIN	Website
	Parque Eólico offshore de East Anglia One	2019	Iberdrola	Website
	Lata Reddy: Prudential Financial's Investments in Equity and Inclusion - and Newark	2018	Impact Alpha	News Article
	Social Responsibility	2019	PGIM	Website
	Taking Care of Business	2018	Prudential Financial	Website
	Active Capital: Implementing a Billion Dollar Mandate	2019	Prudential Financial	Website
	Impact Investing	2019	Prudential Financial	Website
	Impact Investments	2019	Prudential Financial	Website
	East Anglia: Benefits	2019	Scottish Power	Website
	Aerofarms - World’s largest vertical farm grows without soil, sunlight in Newark.	2016	The Guardian	News Article
	Our Responsibility as an Investor ǀ Corporate Responsibility	2018	Zurich Insurance Group	Website
	Z Zurich Foundation ǀ Investing in Communities	2019	Zurich Insurance Group	Website
	Impact Investment ǀ Responsible Investment ǀ Corporate Responsibility	2019	Zurich Insurance Group	Website
	Utility of the Future	2019	Zurich Insurance Group	Website

Intention	2018 Sustainability Report – 4, 32	2018	Prudential Financial	Report
	Zurich Impact Measurement Framework – 5	2019	Zurich Insurance Group	Report
	Responsible Investment at Zurich – 6, 13, 14, 15	2019	Zurich Insurance Group	Report
	Sustainability highlights 2018 – 14, 15	2018	Zurich Insurance Group	Report
	From Ideas to Practice, Pilots to Strategy – 7, 8, 9	2013	World Economic Forum	Report
	What You Need to Know about Impact Investing	2019	GIIN	Website
	Lata Reddy: Prudential Financial's Investments in Equity and Inclusion - and Newark	2018	Impact Alpha	News Article
	Social Responsibility	2019	PGIM	Website
	Taking Care of Business	2018	Prudential Financial	Website
	Active Capital: Implementing a Billion Dollar Mandate	2019	Prudential Financial	Website
	Impact Investing	2019	Prudential Financial	Website
	Impact Investments	2019	Prudential Financial	Website
	Aerofarms - World’s largest vertical farm grows without soil, sunlight in Newark.	2016	The Guardian	News Article
	Our Responsibility as an Investor | Corporate Responsibility	2018	Zurich Insurance Group	Website
	Z Zurich Foundation | Investing in Communities	2019	Zurich Insurance Group	Website
	Impact Investment | Responsible Investment | Corporate Responsibility	2019	Zurich Insurance Group	Website
	Utility of the Future	2019	Zurich Insurance Group	Website
Ability to Measure	2018 Sustainability Report - 35	2018	Prudential Financial	Report
	Zurich Impact Measurement Framework – 5, 6, 7	2019	Zurich Insurance Group	Report
	Responsible Investment at Zurich – 6, 13, 14, 25	2019	Zurich Insurance Group	Report
	Sustainability highlights 2018 – 15, 16, 26	2018	Zurich Insurance Group	Report

	From Ideas to Practice, Pilots to Strategy – 7, 8	2013	World Economic Forum	Report
	GIIRS Funds	2019	B Analytics	Website
	What You Need to Know about Impact Investing	2019	GIIN	Website
	Active Capital: Implementing a Billion Dollar Mandate	2019	Prudential Financial	Website
	Impact Investing	2019	Prudential Financial	Website
	Our Responsibility as an Investor ǀ Corporate Responsibility	2018	Zurich Insurance Group	Website
	Impact Investment ǀ Responsible Investment ǀ Corporate Responsibility	2019	Zurich Insurance Group	Website
Additionality	Impact Investment ǀ Responsible Investment ǀ Corporate Responsibility	2019	Zurich Insurance Group	Website
	Active Capital: Implementing a Billion Dollar Mandate	2019	Prudential Financial	Website